



County of Los Angeles  
**CHIEF ADMINISTRATIVE OFFICE**

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DAVID E. JANSSEN  
Chief Administrative Officer

November 30, 2004

The Honorable Board of Supervisors  
County of Los Angeles  
383 Kenneth Hahn Hall of Administration  
500 West Temple Street  
Los Angeles, CA 90012

Board of Supervisors  
GLORIA MOLINA  
First District

YVONNE B. BURKE  
Second District

ZEV YAROSLAVSKY  
Third District

DON KNABE  
Fourth District

MICHAEL D. ANTONOVICH  
Fifth District

Dear Supervisors:

**REQUEST FOR AUTHORITY TO NEGOTIATE A 30-YEAR DESIGN-BUILD LEASE AGREEMENT FOR THE DEPARTMENTS OF PUBLIC SOCIAL SERVICES, CHILDREN AND FAMILY SERVICES, MENTAL HEALTH, AND CHILD SUPPORT SERVICES AT 8300-8400 SOUTH VERMONT AVENUE, LOS ANGELES IN SERVICE PLANNING AREA 6 (SECOND DISTRICT) (3-VOTES)**

**IT IS RECOMMENDED THAT YOUR BOARD:**

Authorize the Chief Administrative Officer (CAO) to enter into negotiations with ICO Investment Group, Inc. (ICO), for a 30-year design-build lease agreement to provide approximately 200,000 rentable square feet of office space and appurtenant parking with an option to purchase, within Service Planning Area (SPA) 6 for the Departments of Public Social Services (DPSS), Children and Family Services (DCFS), Mental Health (DMH), and Child Support Services Department (CSSD) at an initial annual full-service rental rate not to exceed \$6,264,000.

**PURPOSE OF RECOMMENDED ACTION**

This action will allow the CAO to negotiate with ICO for acquisition of leased office space to accommodate DPSS, DCFS, DMH, and CSSD within SPA 6 which will provide for the delivery of comprehensive services in a single location in proximity to the population these departments serve. Moreover, this lease will provide the additional space required by the occupant departments to meet growing caseload needs. Should the CAO not be able to consummate a lease with ICO by May 31, 2005, the CAO may discontinue negotiations with ICO and may present a new Request for Authority to Negotiate (RFA) to your Board for consideration with the most feasible

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remaining viable proposer from the January 26, 2004 Request for Proposals (RFP) submittal list, or issue a new RFP if a proposer is not selected from the former list by your Board by June 30, 2005 or may cancel the project altogether. In the event that a final lease is not approved with ICO on or before May 31, 2005, the exclusive right to negotiate specified above will end. Pursuant to the terms of the RFP, all developers, including ICO, understand that they will not be entitled to reimbursement for architectural fees or any other costs incurred during the preliminary planning phases of this proposed project.

### **JUSTIFICATION**

Due to the immediate need for additional square footage to meet caseload demand in Supervisorial District 2 (SPA 6), the CAO undertook an extensive search to identify available office space, but available office facilities meeting the County's requirements and preferred location within SPA 6 were not identified. In January 2004, the CAO issued an RFP to 371 real estate developers, brokers and other interested parties to lease an office complex or complexes to be designed and built to meet the identified space requirements for SPA 6. The RFP was also posted on the CAO website. Responses on nine sites were received, some of which were disqualified for being substantially outside the SPA 6 targeted area.

Evaluation of the responses was based on numerous criteria including economic benefits to the County under the lease including the financing mechanism, location, design and quality of the building product, impact on adjoining land uses and the community as a whole, and the experience of the developer. Subsequently, a short list of six respondents, with which to initiate discussions, was selected by a review committee. After careful review of the short list of proposals, the CAO determined that the proposal submitted by ICO included the best combination of various factors considered, including economic benefits, location, and experience of the design-build team. Specifically, along with ICO, the design-build team includes Gensler as the project architect and McCarthy Building Companies, Inc. as the general contractor. The CAO believes that this design-build team possesses sufficient experience to construct the project. The CAO is recommending that negotiations commence for lease acquisition of the proposed site located at 8300-8400 South Vermont Avenue in Los Angeles.

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The proposed rent was in the lower range of the proposals reviewed. Only one site proposed lower rent but it is located outside of the target search area specified in the RFP.

The proposed design is a Type 1, Class A, four-story office building with a six-story parking garage for 900 cars on-site. The building will be clearly visible from Vermont Avenue, thus making it easy for participants to find. It is located near freeways and mass transit stops. ICO has proposed to create a cul-de-sac on 83rd Street in an effort to address traffic flow issues in the neighborhood.

The proposed building will be accessible from Vermont Avenue and the rear of the building. There will be a courtyard between the building and parking garage. The parking garage will have an entrance off 83rd Street. The ICO site offers good street exposure and access for pedestrians.

Attachment A shows the existing offices that are currently leased or owned and used by DPSS, DCFS, CSSD and DMH, and that are proposed to be vacated upon opening of the new SPA 6 facility. The one facility that is owned will be considered for backfill, or a recommendation will be made to sell the property.

### **FISCAL IMPACT**

The CAO is recommending that negotiations commence for lease acquisition pursuant to the following proposed terms offered in response to the RFP. This project is identified as proposed new construction.

	<b>Proposed Terms of Design-Build Lease To Be Negotiated</b>
Proposer	ICO Investment Group, Incorporated
Address of Property	8300-8400 South Vermont Avenue, Los Angeles
Area	200,000 Net Rentable Square Feet
Term of Lease	30 years
Annual Rent	\$6,264,000 (\$2.61 per sq. ft.) Full-Service
Occupancy	Approximately 24 months after Board approval of Lease
Cancellation	After 15 years (If structured as an Operating Lease)
Option to Purchase	After 15 years (If structured as an Operating Lease)
Parking	900 spaces (4.5 spaces per 1000 square feet)
Childcare	At County's option with \$0.05 per sq. ft./mo. added to rent

The selected proposal offers an initial monthly full-service rental rate of approximately \$2.61 per square foot for the completed facility. The Lessor will be responsible for all the operating expenses associated with the County's tenancy, including building management. The base portion of the rental rate will remain fixed over the 30-year term. Increases or decreases in the operating expenses, currently estimated at \$0.43 per square foot, will be passed through to the County on a monthly basis. The initial first-year total rental cost is estimated at approximately \$6,264,000 based on the submitted proposal. This rate does not include the additional rent for a childcare facility, discussed below, or real property taxes, if assessed, nor does it address cost savings of vacating leased premises or County-owned space.

Between 80 and 90 percent of the space cost for County occupancy will be subvented by Federal and State funds. The amount of subvention will be determined by the square footage space that each department occupies and the type of financial structure of the lease that the County utilizes. The County is currently working with the Federal government on reimbursement of design-build leasing costs to determine the most appropriate and acceptable financial structure. Accordingly, the lease may be structured as either a capital lease or an operating lease, with the absolute rent paid to the developer remaining the same in either case.

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However, the purchase price option will be significantly affected by whether the lease is a capital or operating lease. The choice of the structure will be determined prior to submitting the lease to your Board for final approval after discussions with the Auditor-Controller and impacted departments.

The developer will, at the County's option, be obligated to provide an on-site childcare center for employees and the community to accommodate 80 to 100 children, should the County determine that a childcare facility is feasible. This will add \$0.05 per square foot per month to the rental cost.

The developer may also provide up to 4,000 square feet of separate retail space on the ground floor of the proposed building contingent on the developer identifying a prospective retailer(s) that is compatible with County use, obtaining a rent commitment from the retailer(s) prior to any lease being submitted to your Board for approval, and providing a design acceptable to the County with security and a separate entrance(s) for the retail space.

The developer will be responsible for arranging its own financing for both acquisition and total development costs through tax-exempt bond financing approved by the County. A complete financial analysis will be presented as a part of the final recommended lease agreement to be submitted to your Board for its consideration.

#### **FACTS AND PROVISIONS/LEGAL REQUIREMENTS**

In November 1993, your Board approved the creation of eight SPAs to provide for better planning, coordinating, sharing of information and data, and delivery of children's, health, mental health, and social services. In November 1998, your Board approved the first phase of the CAO's Strategic Asset Management Plan, which called for an in-depth study of space utilization, service delivery and other services among the social service departments, including DPSS, DCFS, DMH and CSSD. As a result, the County conducted a Social Services Space Study in December 1999. This study was updated in October 2002 to recalculate the social services departments' staffing and square footage needs based on the changing nature of the County's real estate portfolio. A key finding was that both DCFS and DPSS report an immediate need for additional square footage to meet caseload demand in Supervisorial District 2 (SPA 6).

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The proposal will require the developer to provide a Class "A" structural Type I fire-rated building. Total "turnkey" development costs for the build-to-suit facility are estimated to be \$86,000,000 including financing costs and land. The Tenant Improvement cost is \$70 per square foot, which is included in the turnkey cost. The development time from lease execution to move-in will be approximately 24 months for the build-to-suit.

The lease will have a term of 30 years cancelable after 15 years. Tenant Improvements will be provided on a turnkey basis for \$70 per square foot, to be amortized within the base rental rate which will be fixed and unchanged over the 30-year term, as specified by the County. In addition, a reserve for capital replacements of \$0.60 per rentable square foot per year will be included in the base rental rate. The developer will be responsible for capital item replacements over the term of the lease and may use the reserve account for this purpose with the County's approval.

Respectfully submitted,



DAVID E. JANSSEN  
Chief Administrative Officer

DEJ:CWW  
WLD:CAB:pe

Attachment

c: County Counsel  
Auditor-Controller  
Child Support Services Department  
Department of Public Social Services  
Department of Children and Family Services  
Department of Mental Health

RFA-SPA6.b5

COUNTY OF LOS ANGELES  
 SOURCE FACILITIES AND ANNUAL COSTS FOR BUILDING SITE AT VERMONT NEAR MANCHESTER

Department Existing Facility	Projected Staffing	Space Occupied	Lease / Own	Current NCC Lease Cost	Current NCC Operating Costs (1)	New Square Footage (2)(3)	New Space @ \$2.61 sf/mt	Subvention Rate (4)	NCC of New Space	NCC of new Space net of Current NCC Costs
Department of Public Social Services 923 East Redondo Blvd., Inglewood	335	40,000	Own	\$4,277	\$46,946	67,000	\$2,098,440	90.00%	\$209,844	\$158,622
Department of Children and Family Services 5757 West Century, Los Angeles	404	27,000	Lease	81,923	-	72,000	2,255,040	87.00%	293,155	211,232
11539 Hawthorne Blvd., Hawthorne		31,832	Lease	66,689	3,049					
Subtotal		58,832		148,612	3,049					
Child Support Services Department 621 Hawaii Street, El Segundo	240	47,576	Lease	-	-	53,000	1,659,960	100.00%	-	-
Department of Mental Health 3751 Stocker Street, Los Angeles (5)	15	-	Lease	-	-	3,750	117,450	100.00%	-	-
Unallocated Total	994	146,408		\$152,889	\$49,995	200,000	\$6,264,000	90.00%	\$516,310	\$369,853

Notes:

- (1) The operating cost estimate for 923 E. Redondo is \$0.51 per sf/mt. ISD provides the services to this facility.
- (2) This number does not include space for a child care facility, which may be provided after a needs analysis is completed by SIB.
- (3) The square footage shown in this column was approved in 2003. Based on more recent discussions, DCFS has indicated a desire for more square footage to realign workload in the Southwest County area, DPSS has agreed that this increase can be offset by a reduction in DPSS space.
- (4) The subvention rate is based on a weighted average in each department.
- (5) The space is estimated for Mental Health, the department is in the process of revising the SRE to be included in the Slauson project.